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Testimony of Moe Biller

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American Postal Workers Union

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on

Legislation to Provide a Supplemental Retirement Plan
for Postal and Federal Employees
Hired Since December 31, 1983

before the

Committee on Governmental Affairs

United States Senate

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Testimony of Moe Biller, President
American Postal Workers Union, AFL-CIO

Mr. Chairman, thank you for inviting me to testify before you today on behalf of the 325,000 members of the American Postal Workers Union.

The subject of the hearing today, the design of a retirement program for postal and federal workers hired since December 31, 1983, is of fundamental importance to all our members. Enrollees in the current retirement plan are concerned because they believe that there should be comparable benefits for all employees and that the current system should not be undermined.

New employees are concerned because they should have a good retirement plan as part of their total compensation and they have been kept in the dark as to what that plan will be. "Union" means we stand together. That's why I'm here to speak on behalf of all our members.

The American Postal Workers Union supports action in this Congress on a supplemental plan. We believe it is time to end the uncertainty for the new hires. Most of this spring and summer, postal and federal employees and retirees have felt that their retirement program was in the hands of budget hijackers who were threatening, over and over, to do it harm. The completion of action on this year's budget resolution has set the hostage free--at least temporarily. Cooler heads now have an opportunity to consider this legislation without the presence of a budget gun at the head of employee benefit programs.

If a supplemental plan is not enacted, new hires will eventually have to pay the full payroll deductions for both Civil Service Retirement and Social Security. We don't want to see that happen any more than Members of Congress do. However, we will not accept a stingy, inadequate plan. It is the duty of this Committee to stand up with us and oppose the shrill demagoguery of the far right about the compensation of federal and postal employees.

Administration's Hindrance of the Legislative Process

The Reagan Administration has been no help in developing an adequate retirement plan for new hires. Mr. Devine and Mr. Grace may have high-sounding names but they took the low road on policies for public service workers. Hiding behind the mantle of authority and respectability given to them through appointment by this Administration as the former Director of the Office of Personnel Management and the former head of the President's Private Sector Survey on Cost Control, Mr. Devine and Mr. Grace continue to spread confusion and falsehoods about the Civil Service Retirement program.

One of their most commonly made charges is that an unfunded liability in Civil Service Retirement means the program is overly expensive or unsound. A recent article in the National Journal clearly demonstrated how much baloney there is in that false charge. "Red herring" is the term used in the article to describe the CSRS unfunded liability. Both Grace and Devine have been throwing into the debate on Civil Service Retirement as many red herrings as they can lay their hands on.

The former OPM Director floated a proposal a few months ago that would have meant severe reductions in the Civil Service Retirement benefit. I am glad that Congress has not given it serious consideration. It was a very unbalanced approach that ignored the three-part approach of Social Security, a defined benefit, and a thrift plan that is generally accepted as the direction to take. This Administration's input has not been constructive.

The only legislation from the Administration that has been introduced in either house of Congress is the long list of budget cuts drafted for the sole purpose of cutting the current program. These are not mainstream proposals. They are radical, right-wing and not worthy of consideration. Congress should continue to look the other way when it comes to considering this Administration's destructive proposals.

Peter Grace constitutes another arm for this Administration's attacks on federal and postal workers and retirees. The so-called Grace Commission, otherwise known as the President's Private Sector Survey on Cost Control (PPSSCC), operated between June 1982 and January 1984. Shortly after its reports were released, the quality and credibility of many of the Grace recommendations came under question.

A joint study by the non-partisan General Accounting Office and the Congressional Budget Office found that the Commission greatly overstated the cost savings attainable under its recommendations. Even without considering the merits of the proposals, the CBO-GAO review found that the savings Grace

claimed were three times the level of savings actually possible. GAO further stated that it "does not find the package of PPSSCC recommendations a sound basis for restructuring Civil Service Retirement."

I am appalled that, despite these findings by non-partisan experts, he is still flying around the country with a taxpayer subsidy spreading his misinformation and sowing seeds of prejudice against public service employees.

The CBO-GAO report made an additional recommendation that the Senate Budget and Governmental Affairs Committees apparently chose to ignore this year. The report stated that changes in retirement would be "consistent and complementary" ... "if the Congress deferred action until the legislative committees acted on the changes for newly hired workers."

Despite this recommendation, some members of both the Budget Committee and this committee worked actively during this year's budget negotiations to try to use the budget process to force large cuts in Civil Service Retirement. Postal workers are thankful that, in the end, the conferees saw the wisdom of agreeing with the House position in this area.

APWU Participation in Supplemental Plan Design

The APWU has been preparing itself to participate fully in the development of a supplemental plan. That preparation dates all the way back to the first proposal by Senator Stevens for a new defined contribution plan in 1982. We opposed the Stevens proposal at that time because we felt strongly that a federal retirement system based solely on a defined contribution plan was

the wrong route to go and would provide an inferior retirement plan for our members. We shared our views with the Committee even though formal hearings were not held.

Last year, this Committee sponsored a series of policy forums on Civil Service Retirement. We participated fully in each of those seminars. We were pleased with the educational process that resulted from the forums and are especially pleased with one of the main results: namely, that the Stevens/Roth legislation incorporates a defined benefit as an important, integral part of the supplemental plan.

Earlier this year, it was rumored in the press that Senator Stevens had a bill that was going to be introduced. Draft legislation was in fact circulated by staff, and we began to prepare ourselves to comment on that plan. We expected to testify in favor of certain aspects of the plan and to offer recommendations for improvement of other aspects. However, that legislation was never introduced, so we were not able to offer our reactions through testimony on its specifics. We are pleased that the process is now finally underway.

Cost of Civil Service Retirement

I want to begin my specific testimony on the Stevens/Roth bill by asking a fundamental question. Why do you want to cut Civil Service Retirement? It is a good program. We'll be the first to admit that. But it's definitely not the best in the country, and if Congress keeps chipping at it, it will get worse.

The Hay/Huggins study conducted for the House Post Office and Civil Service Committee brings out two facts that we believe

are definitive in answering the question of whether the new hire supplemental program should be made better or worse than the existing retirement program.

The Hay/Huggins study looked at the cash compensation of 1,249 medium and large companies and the benefits compensation of 854 of the same organizations. It found that total average federal compensation lagged behind the average for those companies by 7.2 percent. The greatest contributing factor to this lag is federal pay, which the study found to be 10.3 percent behind the private sector.

This lag in pay was made up partially by the fact that Civil Service Retirement and other benefits are worth 2.8 percent of pay more than the average fringe benefits in the private sector. That's 2.8 percentage points above **average**. That's not overly generous, or way out of line like Peter Grace would have us believe. It's just a little above average. The retirement plan is a good plan; it should not be trimmed down every time the budget season rolls around.

Members of this Committee should be aware that, when Hay/Huggins looked at the retirement plans of the 854 companies in its study, it found that **over** 10 percent of the group had retirement benefits that were **better than Civil Service Retirement**. That means that there are at least 85 companies out there that have a better retirement program than Civil Service Retirement. Let me repeat that. There are at least 85 companies out there that have a better retirement program than Civil Service Retirement.

The federal and postal services are large organizations. They have to compete for good employees like any other organization. The Congressional budget has recommended a freeze on federal pay for 1986, so the 10.3 percent salary lag identified by Hay/Huggins will grow larger. The APWU believes that now is not the time for the Congress to make any cuts in retirement and thereby further undermine the competitive position of the federal employer.

Major Issues in the Stevens/Roth Bill

The APWU believes that the Stevens/Roth bill, S. 1527, offers a framework on which to draft a supplemental plan. However, the APWU also believes that the bill proposes a system that is inadequate in several important ways:

- The estimated cost of 20.8 percent of payroll implies that the value of the retirement plan to the employee will be one-sixth less than that of the current system. We favor a supplemental that has a total value comparable to the current Civil Service Retirement program or 25.0 percent of payroll.

- The proposed COLA of CPI minus 2 will work a serious financial hardship on retirees. For example, if you retired on a CPI minus 2 COLA and lived 20 more years--not an unrealistic expectation--the real value of your retirement pension would be one third less. A pension should be as good at age 82 as it was at age 62. COLA

cuts of this type have been tried repeatedly in recent years, and all of them have ultimately been defeated. This proposal should meet the same fate.

- We cannot accept the proposal to reduce the benefit for the 30-year employee who is eligible to retire at age 55. The average employee retires at age 61. This proposal would affect only the minority who began government careers at early ages and loyally remained in their jobs. An adequate retirement after such a long career is essential to our members. Furthermore, the analysis of the Congressional Research Service shows that continued full benefits at age 55 would add little to the cost of S.1527.

- The proposed matching rate on employee contributions to the capital accumulation plan (or CAP) is far in excess of typical private sector practice. We favor less matching for the CAP. Instead, a higher accrual rate for the defined benefit supplemental should be offered so that the average worker can be assured of a decent retirement whether or not he or she has been able to put money into the CAP.

- The defined benefit plan as proposed would be totally financed by the agencies. We favor keeping the same total employee contribution that new hires now pay.

- The disability and survivor benefits proposed need several improvements to prevent situations in which those in need of these benefits would find themselves in dire straits financially.

- The proposal would allow employees now covered by Civil Service Retirement to opt into the supplemental and Social Security. We are troubled by this proposal and feel that no election period should be allowed until considerable analysis of the possible problems have been completed. Considerable testimony was presented last spring before the House committee on the problems which have been experienced when similar elections were allowed by new state retirement plans for enrollees in a former plan. Those mistakes should not be repeated in this legislation.

- The proposed CAP would permit employee funds to be invested in a broad range of securities. We favor limiting the investment to government or government-guaranteed securities to better protect the employee's assets and to avoid some serious political and administrative problems.

A complete discussion of these issues and APWU's recommendations is attached to this testimony as Appendix A.

Thank you again for inviting me to present to the Committee the American Postal Workers Union's views on this complicated but crucial legislation. The Union stands ready to work closely with the Committee to formulate a good and fair plan for recent and future federal and postal hires.

Appendix A: Comments of American Postal Workers Union on Issues Raised by Stevens-Roth Bill (S.1527)

The American Postal Workers Union supports the basic 3-part structure for the supplemental retirement plan proposed in S.1527. After reviewing the details of the plan, we have three major recommendations for change:

(1) The cost of the system should be close to that of the Civil Service Retirement system;

(2) The added cost is justified by needed improvements in the defined benefit supplement;

(3) A part of this added cost can be funded by reducing an overly generous government matching of employee savings that S.1527 proposes.

These three issue areas are discussed below.

1. Cost

The entry age normal cost of the Civil Service Retirement system has been estimated at 32.0 percent of payroll in a recent Congressional Research Service (CRS) analysis. The employees contribute 7.0 percent for this plan, with government paying the remaining 25.0 percent.

The CRS cost analysis of S.1527 shows its total cost as 29.7 percent of payroll, of which 8.9 percent is paid by the employees and 20.8 percent by government. The 8.9-percent employee share consists of 5.9 percent for the Social Security tax and an

estimated 3.0-percent average contribution to a capital accumulation plan (CAP).

Using these CRS figures, we see that the average employee would pay 1.9 percentage points more under S.1527 than under the current system, an increase in retirement contributions of over one fourth. The value of the program S.1527 would establish is worth 2.3 percentage points less than the current plan, or a 7-percent cut in plan value.

This treatment of new hires would be wrong for two reasons. First, it would establish a serious inequity between the new hires and their fellow employees. Second, it is grounded in an unsupported theory that the current federal retirement program is unreasonably generous.

Retirement, together with cash wages, health insurance, and several other fringe benefits, make up the compensation package an employer offers to attract the quality and quantity of labor needed. The federal government competes with private sector employers in both national and local labor markets to hire and retain its staff. Since there is little differentiation of wages and benefits by type of employee within the U.S. Civil Service, the government's compensation package must be designed to compete in the toughest labor markets. Otherwise, the government could wind up with an adequate supply of some types of labor but fall far short of needed labor in positions that require skills in short supply.

Fortunately, an excellent study was completed last year for the House Post Office and Civil Service Committee that compares

federal compensation with that in a large number of private firms. Thus, we know whether or not federal pay and benefits are out of line compared to the compensation offered by private competitors.

The study, by Hay/Huggins, compared federal compensation to the pay levels of 1,249 medium and large firms and the benefit plans of 854 firms. Comparing federal compensation to the average figures for the firms disclosed the following:

Component of Compensation	Amount Federal Compensation is Over (+)/Under (-) Average for Private Firms (Percent of Payroll)
Pay	-10.3
Retirement	+6.4
Health	-2.2
Other benefits	-1.4

A 7.2 percent increase in federal compensation would be needed to equate the federal package to that of the average firm.

This comparison shows that Civil Service Retirement is the only program keeping the federal government reasonably competitive in compensation with the average firm. However, even the retirement program lags when the comparison is drawn with only the top firms. The Hay/Huggins study found that all of the top one-tenth of the 854 firms had retirement plans that are more valuable than the federal plan as a percent of payroll.

In summary, a cheap plan for new hires will hurt government personnel policy in two ways. It will drive a wedge of inequity between employee groups based on hiring date, and it will harm

the government's ability to compete for a properly skilled workforce.

2. The Defined Benefit Plan

The defined benefit supplemental proposed in S.1527 would be an add-on to Social Security for retirees. We support the general structure of the proposed plan. However, the supplement to Social Security would not be adequate for the employee with an average or below-average salary. There are a number of factors that lead us to this conclusion, which we discuss below.

a. The Benefit Formula. The proposed plan would accrue benefits at a rate of 1.0 percent of the base salary per year of service. The base salary would be the average annual salary for the highest five years. We estimate that this formula, when applied to an age-62 employee with 30 years of service, would produce a total benefit, including Social Security, that is equivalent to what the current system provides for a person earning less than $20,000. Everyone over this "breakeven" salary would be better off under the current system. We feel that this breakeven level is too low. An employee with below-average pay should not have to rely on his or her ability to save substantial sums and invest wisely to maintain the level of retirement income now provided to those hired before 1984. Also, use of the high-5 average salary instead of the current high-3 would create a difference in treatment of new hires vs. pre-1984 employees that should be avoided.

b. The COLA. The Stevens-Roth bill would limit cost-of-living adjustments (COLAs) to the annual increase in the Consumer Price Index (CPI) less two percentage points. Congress has considered such COLA reduction proposals over the past few years and has refused to approve permanent reductions. The reason for this refusal is simply that COLA reductions are bad policy. The longer a retiree lives, the smaller the real value of the benefit becomes and the lower the standard of living falls if a partial COLA is used. The supplement for a person who lives 20 years in retirement would fall by one third in real value under the "CPI minus 2" provision. This COLA reduction would work a particular hardship on those with average and below-average pay who would start out with inadequate benefits at retirement.

c. Retirement Age. S.1527 proposes a penalty (a 2 percent reduction per year) for retirement prior to age 62. It would permit retirement at age 55 with as few as 10 years of service, but with a larger penalty applied (5 percent per year). This latter liberalization of current law would provide benefit amounts that would be quite small and, thus, of little consequence to the overall system. The proposed early retirement penalty for the career employee is a serious matter, however; such a penalty would save little in plan cost and would be a disservice to career workers and to the government's workforce management.

Government needs both career employees and shorter-term workers. A solid cadre of career staff is necessary to provide

agencies with the stability, institutional memory and non-partisan staff loyalty that government administration requires. A major attraction to the government employee to make government a career has been the opportunity to take full retirement and take up other pursuits after 30 years of service and attainment of age 55. A reduction of the supplemental benefit by as much as 14 percent compared to current practice would place a major obstacle in the path of 30-year retirement for the most devoted members of the government workforce.

This penalty would lead to an older government workforce over time as some career employees delayed their retirement until such time as their benefit entitlements reached adequate levels. While later retirements can be justified based on national policy on total withdrawal from the U.S. labor force, there is no justification for delayed withdrawal from the federal government's workforce. Total government employment has changed little since the late 1960's. It is unlikely to change much over the foreseeable future. Private firms, when faced with such trends, often take steps to encourage early retirement. Such actions are needed to allow room for hiring new personnel and promoting existing employees. Failure to make such allowances will ultimately lead to a lower quality workforce and serious morale problems. The U.S. government should not follow such a course anymore than a private firm should.

d. Disability Benefits. We agree with the overall structure and benefit levels proposed for the long-term

disability plan. There are two technical problems with the bill that we want to see corrected.

First, the method proposed to calculate retirement benefits when a disabled beneficiary reaches age 62 is inadequate. The high-5 salary base would be adjusted forward from time of disability to age 62 by the "CPI minus 2" formula. We favor a full CPI adjustment. Employees disabled for more than a few years would have a major erosion of their salary bases if they are not fully adjusted for inflation each year.

Second, the proposed definition of disability requires that an employee disabled more than one year must be unable to perform any federal job at the same grade level within the same commuting area. This broadening of the current-law definition should not be applied to postal workers who are subject to the labor contract negotiated with the U.S. Postal Service.

e. Survivor Benefits. The survivor benefits proposed by S.1527 would be inadequate in a number of circumstances and should be redesigned. The most serious problems are discussed below.

The bill proposes government-paid group life insurance worth two times annual salary for employees under age 35, phasing down to one times salary at age 45. This phasedown occurs too early, as people in their 40s usually need significant insurance protec tion. We favor carrying the higher level of protection out to a later age (e.g., to age 50).

For surviving spouses of active employees, S.1527 would authorize commencement of the annuity only when the deceased

employee would have attained retirement age. We favor commencement of survivor annuities at time of death, subject to current-law policies regarding remarriage.

f. Employee Contributions. S.1527 does not require an employee contribution to the supplemental retirement plan. We favor requiring a contribution from the new hires that would be equal to the contribution required of pre-1984 employees. Such a policy would mean that new hires initially contribute 1.3 percent of salary to the defined benefit plan. This contribution rate could be lowered automatically in future years as the Social Security payroll tax rate rises in order to maintain equity between the two employee groups. We recognize that exact equality would not exist for employees with salaries above the Social Security taxable wage ceiling. However, these highly paid employees would need to make contributions to the CAP to obtain total retirement benefits comparable to those available to their counterparts under the existing system.

3. The Capital Accumulation Plan (CAP)

The CAP proposed in S.1527 is too generous and should be scaled back. The proposal also raises issues of investment policy and management that should be considered.

Generosity of CAP. S.1527 proposes that the federal government match employee contributions dollar for dollar up to 5 percent of salary. The contributions and the matching funds would be exempt from current income taxation, and employees could contribute another 5 percent of salary on a tax-deferred basis as well.

This plan would be much more generous than the typical private-sector plan. The data reported by the GAO in their 1984 study ("Features of Nonfederal Retirement Programs") showed that the most common private plan matches employee contributions at 50 cents on the dollar up to 6 percent of pay. Even among the 50 largest firms, only one third offer dollar for dollar matching.

There are two problems with this level of generosity. The first is that a deficient defined benefit plan coupled with a generous CAP would make up a retirement system that treats high-salaried employees very well but leaves the average and below-average employees worse off than they would be if under the current system. Also, it would make the variable, unpredictable portion of retirement income a rather large part of the total. For example, a 30-year, age-62 retiree who participated fully in the CAP would receive benefits in the proportions shown below according to the CRS analysis of S.1527:

Proportion of Total Benefit by Source if Final Salary Is:

	$15,000	$30,000	$45,000	$60,000
Social Security	33%	30%	22%	18%
Defined Benefit	39	42	45	48
CAP 28	28	30	32	34

A system that requires a $15,000 employee to depend on an ability to save regularly and on financial market performance for over a fourth of his/her retirement income is clearly unbalanced.

A second problem is that the Administration's tax policies are now directed at limiting tax-deferred saving, and Congress

may decide this year to accept some of these proposals. The most stringent proposal would limit an individual's combined contributions to a 401(k) plan and an IRA to $8,000 per year. Under S.1527, this limit could be breached by anyone making at least $40,000 a year and making a maximum contribution to the CAP. (A $40,000 employee could have a total contribution of $6,000 to the CAP and $2,000 to an IRA.) It would be unwise to rest a key plan design feature on a policy that might well be changed before the CAP could be started.

Investment Policy. The bill permits individuals to choose from among several investment funds, including a fund based on a major stock market index and other funds that the CAP Board may establish. The Governmental Affairs Committee should review this policy carefully and consider as an alternative that funds be invested only in government or government guaranteed securities.

Allowing private-sector investing raises several potential problems. First, it may be politically impossible to limit the investment options to a manageable number, and the program may wind up with a large number of private vendors and inadequate oversight by the government. Second, permitting risky investments will create a greater divergence in the retirement income available to federal and postal employees and increase the chances that some employees will suffer capital losses. Third, taxpayers may resent their tax money being used for federal workers to invest on Wall Street, a resentment that would

probably not arise if the funds were used instead to purchase government debt.

Management of the CAP. S.1527 proposes a Thrift Investment Board consisting of the Federal Reserve Board Chairman, the Treasury Secretary, the OPM Director, and two federal employee representatives appointed by the President, one from labor and one from management.

We believe the mix of the Board should be changed, perhaps by expanding the membership, to allow majority representation by professional investment experts. The members who are not officials should be named by the President with the advice and consent of the Senate.

4. Summary

The Stevens-Roth bill is a starting point for the Senate's debate on the supplemental retirement plan for new hires. The defined benefit portion of the system must be strengthened, however. The cost of the needed improvement can be covered by: (1) requiring employee contributions; (2) reducing the generosity of the federal matching for the CAP; and (3) accepting the notion that federal retirement benefits should not be cut below those of the present system in terms of long-run cost. These changes will yield a plan that gives the average employee the security needed in old age and gives the government the tools it needs to compete for a well-qualified workforce.

A final issue raised by S.1527 is whether to allow employees now covered by Civil Service Retirement to elect coverage under the new system. We feel that enactment of the proposed option to

elect such coverage would be a mistake. Congress would have to amend the Social Security Act to allow voluntary election of coverage, and the whole issue of universal coverage may again arise. The election process itself would require complex choices by individuals who are not prepared with the information needed to make such decisions. If large numbers of employees did choose the new system, the political support for the existing system would be threatened, and the livelihood of current retirees could be placed in jeopardy. If the decision to switch corresponded with employee ages and income levels, a corrosive split between management and labor and between older and younger employees might result. Those who chose the new system might later regret their decisions should Congress change the CAP unfavorably as a result of shifts in overall tax policy. For all of these reasons, it would be foolish to write an option to switch into the new plan.

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